Paper 20 - Strategic Performance Management & Business Valuation

Paper 20 - Strategic Performance Management & Business Valuation

Full Marks: 100 **Time allowed: 3 hours**

The figures in the margin on the right side indicate full marks.
Working notes should form part of the answer.

Section - A

Answer Question No. 1 which is compulsory and any two from the rest of this section

1. Multiple choice questions: [1 mark for right choice and 1 mark for justification] [5×2=10]

(i) A successful TQM program incorporates all of the following except :
(a) continuous improvement
(b) employment involvement
(c) benchmarking
(d) centralized decision making authority.

(ii) The risk which refers to the possibilities of loss due to factors such as religious fanaticism, ethnic polarization, dissatisfaction among the people as a result of wide disparity in income distribution, or regionalism, is called:
(a) Social Risk
(b) External Risk
(c) Political Risk
(d) Country Risk.

(iii) The revenue function of a firm given by $R = (2200 - 3x)\frac{x}{2}$, the firm's marginal revenue function will be:
(a) 2200 – 3x
(b) 1100 – 3x
(c) 1100 – 2x
(d) 2200 – 2x

(iv) As per Altman's model, if the value of z-score of a firm falls between 1.81 and 2.99, then the firm will be:
(a) Non-failed firm
(b) Failed firm
(c) Mixture of failed and non-failed elements
(d) None of the above.

(v) The type of benchmarking, which is concerned with the development of core competencies that will help sustained competitive advantage, is called:
(a) Global Benchmarking
(b) Strategic Benchmarking
(c) Internal Benchmarking
(d) Competitive Benchmarking.

2. (a) What is Customer Relationship Management? State the objectives of Customer Relationship Management Application and also state the advantages of it. [2+4+4]

(b) What do you understand by Balanced Score Card (BSC)? A BSC allows managers to look at business from four different perspectives — Write about those four perspectives. [2+8]

3. (a) $Cost = 300x - 10x^2 + \frac{1}{3}x^3$, calculate
(i) Output at which Marginal Cost is minimum
(ii) Output at which Average Cost is minimum

(iii) Output at which Marginal Cost = Average Cost. [10]

(b) Using Altman's Multiple Discriminant Function, calculate Z-score of S & Co. Ltd., where the five accounting ratios are as follows and comment about its financial position:
Working Capital to Total Assets = 0.250
Retained Earnings to Total Assets = 50%
EBIT to Total Assets = 19%
Book Value of Equity to Book Value of Total Debt = 1.65
Sales to Total Assets = 3 times [10]

4. (a) "The Enterprise Risk Management (ERM) is a comprehensive and integrated approach to addressing corporate risk." — State the basic characteristics of ERM and mention the needs for implementation of ERM. [5+5]

(b) (i) State the objectives of MIS (Management Information System). [7]
(ii) Write a short note on OLAP Server. [3]

Section - B

Answer Question No. 5 which is compulsory and any two from the rest of this section

5. Multiple choice questions: 10] [1 mark for right choice and 1 mark for working] [5x2=10]

(i) A firm's current assets and current liabilities are ` 1600 and ` 1000 respectively. How much can it borrow on a short-term basis without reducing the current ratio below 1.25?
(A) ` 1,000
(B) ` 1,200
(C) ` 1,400
(D) ` 1,600.

(ii) If an all equity firm has Cash from Operating activities amounting to ` 60 lakhs, Depreciation ` 30 lakhs, increase in non-cash Working Capital ` 25 lakhs and Capital Expenditure ` 20 lakhs, its Free Cash Flows to Equity amounts to (in Lakhs):
(A) 90 lakhs
(B) 45 lakhs
(C) 40 lakhs
(D) 65 lakhs.

(iii) Sun Ltd. has announced issue of warrants on 1:1 basis for its equity shareholders. The warrants are convertible at an exercise price of 12. Warrants are detachable and trading at `7. What is the minimum price of the warrant if the current price of the stock is `16?
(A) ` 6
(B) ` 4
(C) ` 10
(D) ` 12.

(iv) It is assumed that M. Ltd., would realize `40 million from the liquidation of its assets. It pays `20 millions to its creditors and Preference Shareholders in full and final settlement of their claims. If the number of Equity Shares of M. Ltd. is 2 million, the Liquidation per Share would be:
(A) `1 per Share
(B) `10 per Share
(C) ` 12 per Share
(D) `15 per Share.

(vi) Assume that the following details are given for a company:
Sales-`1,00,000; Costs-`75,000; Depreciation-`20,000; Tax-35%; Change in Net Working Capital-`1,000; Change in Capital Spending-`10,000. The Free Cash Flow to Firm (FCFF) for the given data would be:
(A) `10,000
(B) `12,250
(C) `13,500
(D) `15,000.

6. (a) If, Earnings per share: ` 3.15;
Capital Expenditure per share: `3.15.
Depreciation per share: ` 2.78
Change in working capital per share: `0.50
Debt financing ratio : 25%
Earnings, Capital expenditure, Depreciation, Working Capital are all expected to grow at 6% per year. The beta for stock is 0.90. Treasury bond rate is 7.5%. A premium of 5.50% is used for market.
Calculate value of stock.

(b) Zinc Ltd. has an issued and paid-up capital of 50,000 shares of `100 each. The company declared a dividend of `12.50 lakhs during the last five years and expects to maintain the same level of dividends in the future. The control and ownership of the company is lying in the few hands of Directors and their family members. The average dividend yield for listed companies in the same line of business is 18%. Calculate the value of 3,000 shares in the company. 10+10

7. (a) Marico Ltd. acquired 100% of Sun Ltd. for `2,000 (lacs). As on the date of acquisition, the net assets of Marico Ltd. were:

Particulars	` (in Lacs)
Tangible Fixed Assets	500
Brand (Valued by Management)	120
Net Current Assets	380

Compute Goodwill on acquisition under the following situation:
(i) Ignore Brand Value
(ii) Consider Brand Value.

(b) Tridev Ltd is in the business of making sports equipment. The Company operates from Thailand. To globalise its operations Tridev has identified Try Toys Ltd, an Indian Company, as a potential takeover candidate. After due diligence of Try Toys Ltd, the following information is available:

(a) Cash Flow Forecasts (`in Crores)

Year	10	9	8	7	6	5	4	3	2	1
Try Toys Ltd.	24	21	15	16	15	12	10	8	6	3
Tridev Ltd.	108	70	55	60	52	44	32	30	20	16

(b) The Net Worth of Try Toys Ltd (in Lakh `) after considering certain adjustments suggested by the due diligence team reds as under —

Tangible	750	
Inventories	145	
Receivables	75	970
Less- Creditors	165	
Bank Loans	250	(415)
Represented by Equity Shares @ ` 1000 each		555

Talks for the takeover have crystallized on the following –

(i) Tridev Ltd will not be able to use Machinery worth `75 Lakhs which will be disposed of by them subsequent to take over. The expected realization will be `50 Lakhs.

(ii) The inventories and receivables are agreed for takeover at values of `100 and `50 Lakhs respectively, which is the price they will realize on disposal.

(iii) The liabilities of Try Toys Ltd will be discharged in full on take over along with an employee settlement of `90 Lakhs for the employees who are not interested in continuing under the new management.

(iv) Tridev Ltd will invest a sum of `150 Lakhs for upgrading the Plant of Try Toys Ltd on takeover. A further sum of `50 Lakhs will also be incurred in the second year to revamp the machine shop floor of Try Toys Ltd.

(v) The anticipated cash flow (in `Crore) post takeover are as follows-

Year	1	2	3	4	5	6	7	8	9	10
Cash Flows	18	24	36	44	60	80	96	100	140	200

You are required to advise the management the maximum price which they can pay per share of Try Toys Ltd., if a discount factor of 15% is considered appropriate. 10+10

8. (a) A company has a capital base of ` 3 crore and has earned profits of `33 Lakhs. Return on investment of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by `7.5 lakhs over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

(b) The chief executive of a Company thinks that shareholders always look for the earnings per share. Therefore, he considers maximization of the earning per share (EPS) as his Company's objective. His company's current net profit is ` 80 lakhs and EPS is `4. The current market price is `42. He wants to buy another firm which has current income of `15.75 lakhs, EPS of `10.50 and the market price per share of `85. What is the maximum exchange ratio which the chief executive should offer so that he could keep EPS at the current level? If the chief executive borrows funds at 15 per cent rate of interest and buys out the other Company by paying cash, how much should he offer to maintain his EPS? Assume a tax rate of 50%. 8+12